

Colorado Transportation Finance Forum



INDEXING PENNSYLVANIA'S GAS TAX

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Presentation Outline

- Overview
- Context for Highway Funding
- Variable Fuel Taxes
- Pennsylvania's Oil Company Franchise Tax (OCFT)
- Closing Comments

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Overview

Overview: Observations

Challenges and Solutions Are NOT Distributed Equally



“The great strength in this era of innovative highway finance is the diversity of the states. Different revenue producing themes and variations on these themes have created numerous possibilities to meet transportation needs.”

All options must be considered in context

Overview: View from Smuggler's Notch

1987 TRB Taxation & Finance Conference (VT)



CHALLENGE:

End of post World War II era of highway revenue stability & growth

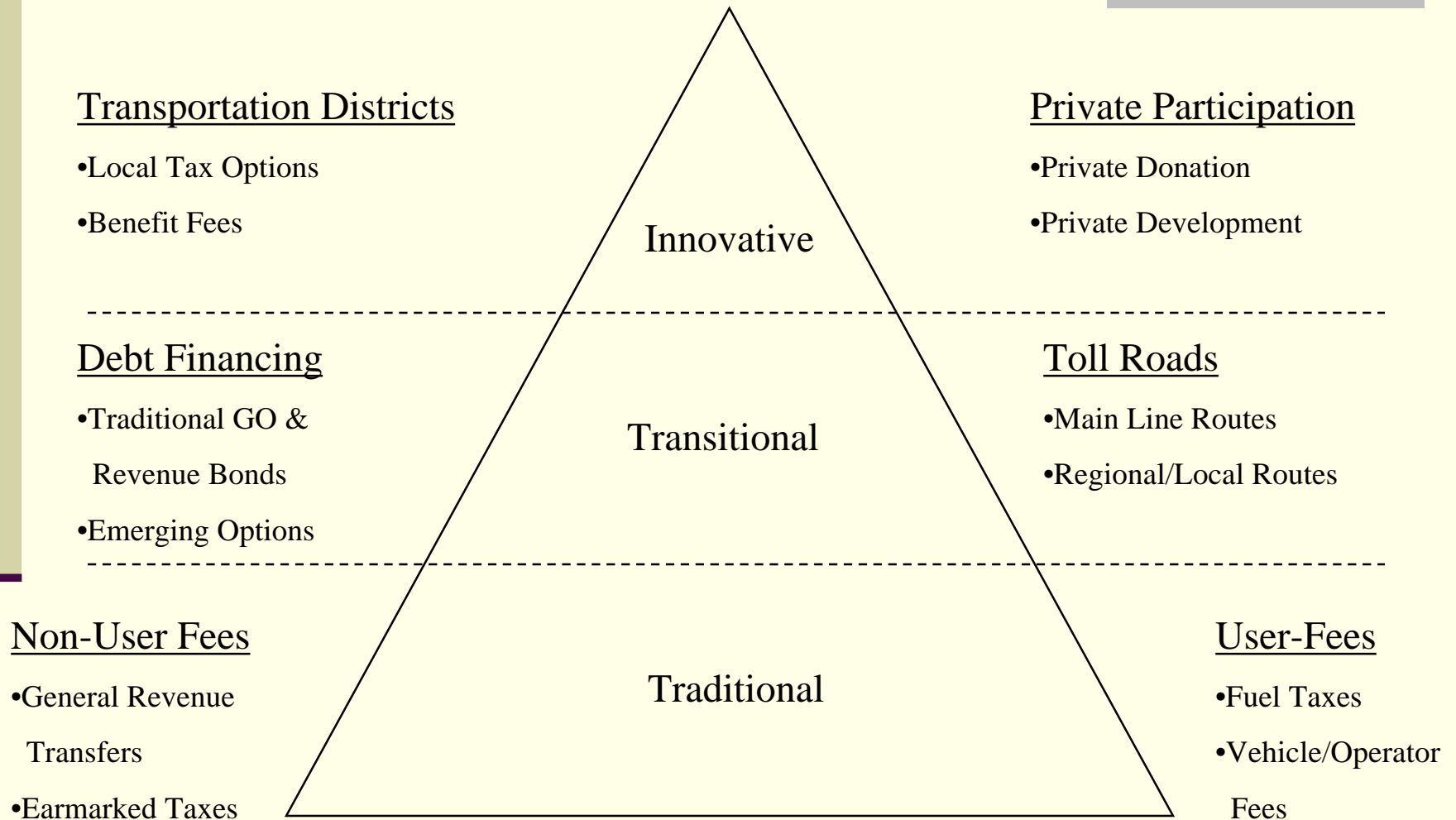
THREATS:

- Fuel price and availability
- Fuel efficient vehicles
- Hyper-inflation
- Growth of anti-tax sentiment
- Post-Interstate federal funding

BUZZ WORDS: “Innovative Finance”

Overview: View from Smuggler's Notch

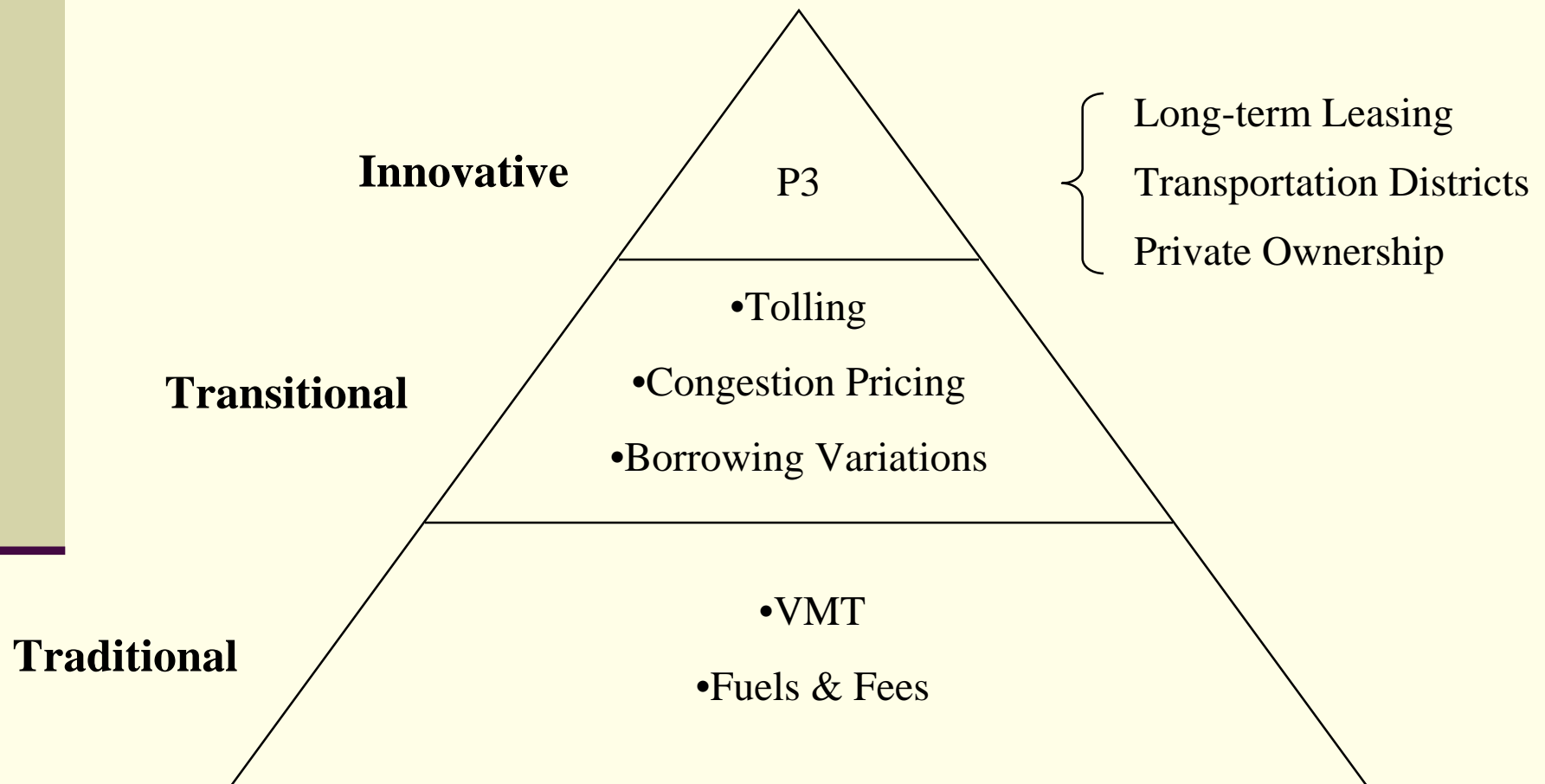
Sources for Highway Funding (TRB – 1987)



Note: Innovative finance often involves mixing & matching.

Overview: View of the Future

Highway Funding in 2027



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Context for Highway Funding

Context: Key Factors

Influences on Highway Funding Strategies



- Authorizing Environment
- Tax & Finance History
- Organizational Credibility
- Tax Climate

Context: Authorizing Environment

Dedicated Highway Funds & Decision-Makers



Dedication of User Fees:

- Dedicated
- Dedicated with General Revenues
- Not Dedicated

Basis for Dedicated User Fees:

- Constitution
- Annual Appropriation
- Statute

Decision Makers:

- Legislature
- Legislature with Limitations
- Voter Referendum

Context: PA Authorizing Environment

Dedicated Highway Funds & Decision Makers



- Constitutionally-based dedication of user fees
- Highway program fully funded from user fees
- Legislative tax authority without caps or voter referendum

Context: Tax & Finance History

Tends to be Unique to Each Location



PA Example:

- Primarily gas tax with some fee increases
- Heavy capital borrowing in 1970's led to under funded maintenance & restoration
- Incremental tax increases in 1980's for largely pay-as-you-go maintenance & restoration priority
- Major tax increases in 1991 and 1997 to continue maintenance & restoration priority
- Indexed gas tax provided equivalent $5 \frac{3}{4}$ cpg increase (floor in 2003 to ceiling in 2006)

Context: Organizational Credibility

Program Results & Public Perception



- Demonstrated Efficiency & Effectiveness
- Acceptance of Planning Process & Project Priorities
- Reliable Project Delivery

Context: Tax Climate

Past Battles, Public Perception & Current Politics



- Past Battles
 - The past is prologue
 - Battle tested best & worst options
- Public Perception
 - Link tax to services received (user fee)
 - Good value for taxes paid
- Current Politics
 - Partisan context
 - Public mood

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Variable Fuel Taxes

Variable Fuel Taxes: Quick Scan

Web Search of Variable Fuel Tax States



Connecticut, Florida, Kentucky, Nebraska, North Carolina, Wisconsin, and Pennsylvania

Index Used:

- Fuel Price Index – 4 States
- Consumer Price Index – 2 States
- Not Indexed – 1 State

Note: Adjustment period varies

Variable Fuel Taxes: Index Options

Issues are Growth & Volatility



- Consumer Price Index
- Construction Cost Index
- Gross Domestic Product
- Wages
- Fuel Prices


Variable Fuel Taxes: Index Volatility

Indices used in PENNDOT's Inflation Analysis



Latest 3-Year Cumulative Increase

Bid Price Index (FHWA)	64%
Construction Cost Index (Engineering News Record)	15%
Consumer Price Index (U.S. Bureau of Labor Statistics)	9%

A dark purple outline map of the state of Pennsylvania, centered on the slide. The text of the section header is placed within the map's outline.

Pennsylvania's Oil Company Franchise Tax (OCFT)

PA's OCFT: Fast Facts

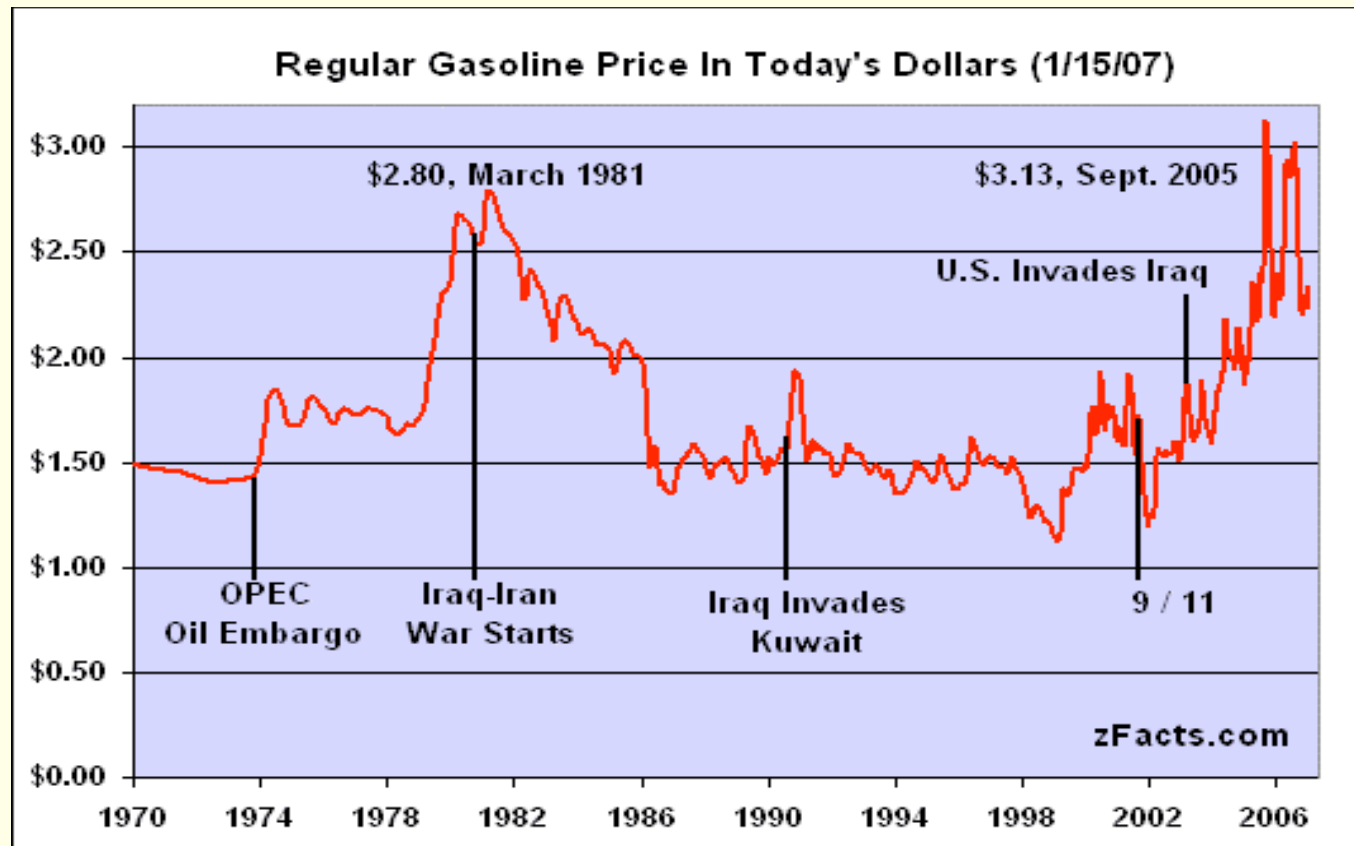
Tax Fundamentals



- Created in 1981 with 3 subsequent increases
- Supplements 12 cent per gallon (cpg) gasoline/diesel tax
- Average Wholesale Price (AWP) times millage rate = cpg
- Floor: 90 cents AWP / Ceiling: \$1.25 AWP
- Assumed reduced fuel consumption & gradual AWP rise

OCFT: Cost of Gasoline

Volatility of Pump Prices



OCFT: History



Cents Per Gallon at Floor and Ceiling

ACT	MILLS	Cents Per Gallon	
		Floor	Ceiling
Act 35, 1981	35	3.150	4.375
Act 32, 1983	25	2.250	3.125
Act 26, 1991	55	4.950	6.875
Act 3, 1997	38.5	3.465	4.813
ALL FUELS	153.5	13.815	19.188
+ Diesel Surtax Act 26, 1991	55	4.950	6.875
TOTAL	208.5	18.765	26.063

OCFT: PA's Mechanics



Mills x Average Wholesale Price = Cents Per Gallon

Gasoline: 153.5 mills
or .1535 rate

Diesel: 208.5 mills
or .2085 rate

Gasoline

Floor: $\$.9 \times .1535 = .1382$ or 13.9 cents

Ceiling: $\$1.25 \times .1535 = .1918$ or 19.2 cents

Diesel

Floor: $\$.9 \times .2085 = \$.1877$ or 18.8 cents

Ceiling: $\$1.25 \times .1535 = \$.2606$ or 26.1 cents

OCFT: Floor & Ceiling

Cents Per Gallon and Dollar Impact



Cents Per Gallon (cpg)

	Floor	Ceiling	Difference
Gasoline	13.9	19.2	5.3
Diesel	18.8	26.1	6.3

Dollar Yield (\$Millions)

	Floor	Ceiling	Difference
Gasoline	715	990	275
Diesel	275	380	105
Total	985	1,370	380

PA's OCFT: AWP Above the Ceiling

CPG & Dollar Impact at 2006 AWP and Beyond



2006 AWP at \$1.99 vs. \$1.25 Ceiling

Gasoline	+ 11.4 cpg	(19.2 to 30.6)
Diesel	+ 15.4 cpg	(26.1 to 41.5)
Yield	+ \$810 million	

AWP at \$2.99 vs. \$1.99 in 2006

Gasoline	+ 15.3 cpg	(30.6 to 45.9)
Diesel	+ 20.9 cpg	(41.5 to 62.4)
Yield	+ \$1.09 billion	

OCFT: AWP Below the Floor

CPG & Dollar Impact at 2003 AWP



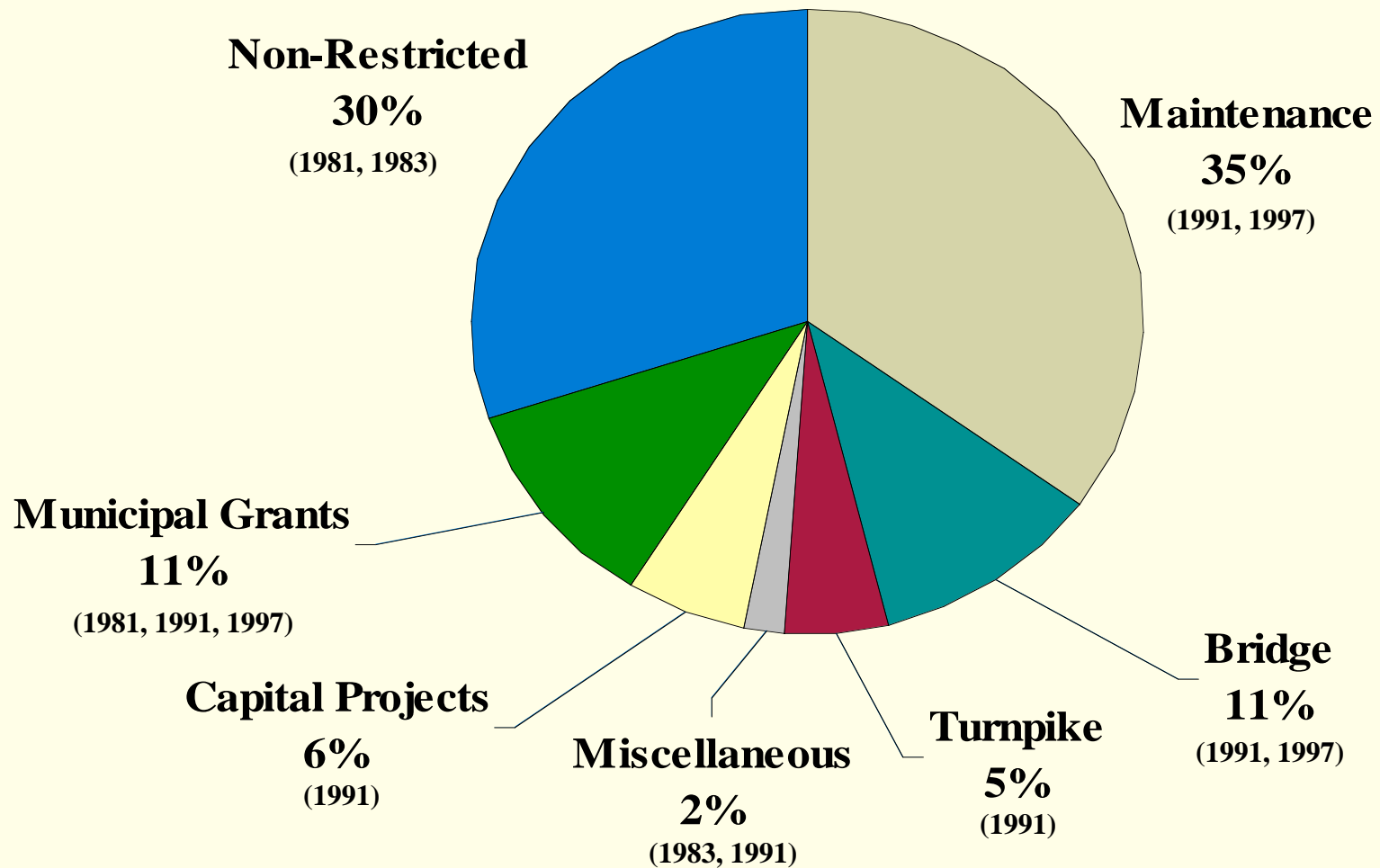
2003 AWP at 74 cpg vs. 90 cpg floor

Gasoline	-	2.5 cpg	(13.9 cpg to 11.7 cpg)
Diesel	-	3.3 cpg	(18.8 cpg to 15.5 cpg)
Loss Avoided	-	\$175 million	

Note: Similar losses avoided during 2 years in late 1990's.

OCFT: Statutory Allocation

Where \$1.37 Billion Goes



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Closing Comments

Closing: Lessons Learned

AWP Index & Floor/Ceiling Strategy



Expectation: Gradual AWP increase to offset consumption decline

Experience:

Floor: Provided program stability during periods of AWP price reduction

Ceiling: Jumped quickly between floor and ceiling during the recent AWP price escalation

Revision: Future AWP floor/ceiling adjustments likely require a maximum annual change provision

Closing: Tax Climate

Contributing Factors for Pennsylvania



- Constitutionally Protected
- Allocation for Specific Programs
- Something for Everyone (Geographically)
- Open & Credible Project Planning Process
(Major program cuts prior to tax increases)
- Project Delivery Reliability (90% success rate)

Closing: Right-Sizing Your Funding Plan

General Principles



- Not too large to be DOA
- Large enough to cover all regions
- Project delivery credibility & accountability
- Sensitive to other transportation modes, communities and the environment
- Vision of the future with voter WIIFM
- Enthusiasm of key stakeholders

Closing: Marketing Your Plan

Public Perception Drives Ballot Results



Is the Project Perceived as...

Nice to Have or Need to Have

by

- Individual Voters
- Communities
- Regions
- State of Colorado